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ZNR UUUUU ZZH
R 201337Z NOV 09
FM AMEMBASSY BAGHDAD
TO RUEHC/SECSTATE WASHDC 5514
INFO RUCNRAQ/IRAQ COLLECTIVE
RUEHGV/USMISSION GENEVA 0363
RUEHRN/USMISSION UN ROME 0017
RUEHUNV/USMISSION UNVIE VIENNA 0096
RUEHRC/DEPT OF AGRICULTURE WASHDC

UNCLAS SECTION 01 OF 02 BAGHDAD 003055

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: [EAGR](#) [EAID](#) [ECON](#) [ETRD](#) [IZ](#) [KCOR](#) [PREF](#) [WFP](#)
SUBJECT: THE PDS IN ANBAR: LET THEM EAT SOAP

REF: BAGHDAD 2621

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11. (SBU) Summary and Comment: An early November call on a panel of Iraqi Trade Ministry officials who administer the Public Distribution System (PDS) in Anbar province provided insight into the decaying utility of the GOI's program. More than 2,000 agents licensed by the Ministry of Trade (MOT) are responsible for distributing government food rations to about 1.5 million Anbaris. Rations were substantial until 2003, the officials claimed, when new procurement procedures for bulk commodities led to budget shortfalls and corruption that has hamstrung the whole system. Stricter anti-corruption oversight in Anbar was deemed "unnecessary" and would not solve the PDS' problems, the officials asserted. They stated that the provincial PDS system was "well-established, efficient, and would be as effective as a free-market alternative" if there were no corruption and political manipulation in Baghdad. Concealing any sense of irony, the MOT officials told Emboffs that despite the \$7 billion that the GOI will spend on PDS throughout the country this year, they would only be able to deliver one commodity to Anbaris in November and December: soap. As a quiet national debate over PDS reform takes shape in the context of Parliament's 2010 budget process and various GOI and donor community reform proposals, it may be market forces and not third-country efforts that will ultimately alter -- and perhaps sunset -- this Saddam-era command economy relic. Until then, most Anbaris may be surviving without significant benefits from the PDS. End Summary and Comment.

Anbar's Key Offices Responsible for Distributing Rations

12. (SBU) The Iraqi Ministry of Trade's Anbar Trade and Financial Oversight Office (OTF), headed by Muhammad Mish'an Turki, administers and audits the distribution of Anbar's PDS rations. Various government offices and subsidiary state companies that share responsibility for feeding Anbaris include the Office of Ration Distribution and Planning (represented by Director Faruq Khudher Abdulhadi), the General Company for Trade for Food Products (represented by Director Jasem Fahd Fayyadh), and the General Company for Grain Trade (represented by Director Ayad Farhan Abd). On an early November visit to Anbar, Emboffs met these PDS authorities in a panel discussion organized by PRT Ramadi. Emboffs thank PRT Ramadi for their outstanding support.

Administrative Control of the PDS on the Local Level

13. (SBU) In the panel meeting at the Ramadi Provincial

Governance Council headquarters, OTF Director General Muhammad Turki told Emboffs that 1,591 MOT-licensed agents distribute government rations monthly to 250,380 families (1,437,981 million people, including 25,767 infants) in Al Anbar. An additional 478 licensed agents distribute only flour rations. Agents operate PDS-exclusive shops, "ration stores," to which residents of Anbar submit government-issued ration cards and pay nominal, official fees for "handling and delivery." The GOI pays agents about 60 Iraqi Dinars (five U.S. cents) per person served per month. By MOT regulation, ration stores may not carry commercial items and the fee they charge beneficiaries for collecting their rations may not exceed 250 dinars. According to Turki, however, his office is authorized to -- but does not -- pursue punitive actions Qis authorized to -- but does not -- pursue punitive actions against agents who charge up to 500 dinars (U.S. 22 cents), the current rate, which he said more fairly compensates the agents for "increasing overhead costs like fuel, rent and taxes." Turki said that in "a few cases" his office had sought to prosecute agents for overcharging, but that he was unaware of any convictions. He said temporary suspension of MOT licenses was a more frequent penalty, along with fines levied in the amount of the overcharges. Office of Ration Distribution and Planning Director Faruq Khudher Abdulhadi -- whose office issues and manages the ration card distribution -- strongly resisted the idea of privatizing the system, but admitted they had been exploring options for means testing. Abdulhadi expressed concern that the government would poorly manage more complex accounting that accounts for family size and incomes.

Food Rations for Anbar Measured by Monthly Need

14. (SBU) The Ministry of Trade purchases bulk commodities, delivered to agents through a network of storage facilities

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and transportation providers. Quantities are based on the proportion of beneficiaries in the agents' area of operation.

The Anbar OTF calculates these proportions based on "monthly need," which the Ministry of Trade defines as 100 percent of each household member's minimum daily caloric requirements (about 2,200 calories). In Anbar, according to OTF numbers, gross monthly provincial need is: wheat (16,300 Metric Tons); rice (4,474 MT); sugar (2,926 MT), butter/lard (2,085 MT), cooking oil (1,550 MT), powdered milk (359 MT), detergent (366 MT), legumes (366 MT), soap (365 MT), tea (288 MT) and infant formula (45 MT). Turki noted that this data was subject to change based on population growth and other factors. For example, until age one, infants receive formula; children over age one receive adult milk. Agents stock their ration stores with commodities as they trickle down the supply chain from central storage.

Corruption in the System

15. (SBU) While Turki and his colleagues did allow that there was some low-level corruption in the food distribution system at the local level, they denied that provincial level corruption was pervasive and asserted that national level decisions had derailed the PDS system. Turki discounted the impact of local improprieties, which he said amounted to PDS agents overcharging beneficiaries and low-level theft such as "ghost" subscribers, selling ration items outside the system, and the use of false identities to claim rations. His major complaint was the delays by the Council of Representatives in passing the budget for the Ministry of Trade to procure commodities, backing up the entire supply chain to the provinces. He also noted other major problems:

- Allocation of jobs (in the ministry) to non-qualified people based on political and sectarian affiliations.
- Contracting kickbacks.
- Subversion of quality specifications (substituting for

cheaper goods).

- Theft and misappropriation during shipping and storage.

(Note: Additional forms of corruption in local PDS systems are widely reported to take the following forms:

- Rations selectively distributed to appease voters, religious groups, or other target audiences, particularly in times of scarcity of commodities.
- Warehousing and milling operators and PDS agents substitute low quality commodities in place of higher quality commodities. End Note.)

Comment

¶7. (SBU) Even with the elements of corruption and mismanagement that Turki identified, he opposed the idea that the private sector could serve as an alternative to the government ration system. He seemed to ignore the fact that the PDS currently supplies only soap in Anbar. With the shrinking supplies in the PDS basket and the price of "handling and delivery" of inferior goods inflated by corruption and mismanagement, the PDS may become increasingly irrelevant to an Anbar population able to buy higher-quality commodities on the open market. End comment.

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